

American NEWS & VIEWS

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Transcript: State's Bolton Says U.S. Favors Treaty to Ban Fissile Materials	1
International Cooperation Needed to Help Sudan, U.S.Officials Say	6
Fact Sheet: U.S. Rebuts Criticism of Domestic Cotton Subsidies	7

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Transcript: State's Bolton Says U.S. Favors Treaty to Ban Fissile Materials

(But says verification provisions should not be included)

The State Department's chief arms control official says international disarmament negotiators should keep working to develop a treaty to ban production of fissile materials for nuclear weapons, but that verification measures should not be included.

John Bolton, under secretary of state for arms control and international security, told reporters in Geneva September 10 that the Conference on Disarmament should continue working to negotiate a Fissile Material Cut-Off Treaty, but that U.S. experts do not think verification should be part of it.

The proposed treaty would ban production of fissile materials for nuclear weapons and other nuclear explosive devices, but would not apply to plutonium and highly enriched uranium for non-explosive purposes.

Bolton answered questions after meeting with the G8 Senior Group that focuses on issues related to the proliferation of weapons of mass destruction. He said the G8 Group discussed how Iran's clandestine nuclear weapons program "poses a threat to international peace and security."

Iran's nuclear efforts, Bolton said, indicate that the United Nations Security Council should consider the matter. "We think, just politically, the international dynamic would change dramatically if Iran were in center stage in New York," he said.

When one reporter raised the issue of applying separate standards to Iran and Israel, Bolton answered that Iran is a country that provides support for terrorism. "It has been on the United States' list of state sponsors of terrorism for any number of years," he said.

Iran is conducting its nuclear weapons development program "in violation of its obligations under the [1970 Nuclear] Non-Proliferation Treaty," Bolton said, "and it's conducting a very extensive program to increase the range and accuracy of its ballistic missiles, and has demonstrated, we think, that it is a threat."

Bolton said the case of Iran is very different from Israel. "It is discrimination when you treat two like things in a dissimilar fashion. And it is also discrimination when you treat two unlike things in the same fashion," he added.

Another reporter raised the issue of safeguarding Russian nuclear fuel facilities. Since the terrorist attacks of September 11, 2001, the radiological sources of low-grade radioactive material worldwide has not been sufficiently protected, he said. It is a subject that needs greater attention globally "because of the danger that these radiological sources could be exploited to give terrorists the capability of creating ... a radiological dispersion device." But he also said that U.S. officials are unaware of any instance in which Russian officials may have lost control of a nuclear warhead.

There will be a Global Threat Reduction Initiative International Partners Conference in Vienna September 18-19 that is being co-sponsored by the United States and Russia. Bolton said the conference would seek to carry out aspects of earlier initiatives launched by President Bush to reduce nuclear threats. Energy Secretary Spencer Abraham will deliver a keynote address to conference attendees on September 18.

When asked about negotiations on a treaty on weapons in space, Bolton reiterated the U.S. position, saying: "We are not prepared to negotiate on the so-called arms race in outer space. We just don't see that as a worthwhile enterprise."

Following is the transcript of Bolton's press conference:

UNDER SECRETARY BOLTON: Thank you very much. Thank you all for coming. Today here in Geneva we had a meeting of the G8 Senior Group that deals with questions of proliferation of weapons of mass destruction (WMD). This was a group that was created during the U.S. Presidency of the G8 and the preparations for the Sea Island Summit that was held in June hosted by President Bush. The work that we engaged in here today was principally follow-up from the Sea Island Summit, addressing questions involving President Bush's proposals to close loopholes in the nuclear nonproliferation framework, discussing issues like how to restrict the transfer of sensitive nuclear technology; uranium enrichment and plutonium reprocessing; what to do about restricting transfers to states that have not brought into force the IAEA [International Atomic Energy Agency] Additional Protocol; questions of strengthening IAEA governance, such as prohibiting states that are under investigation from participating in IAEA decisionmaking concerning them.

We also discussed the formal expansion of the G8's Global Partnership against the spread of weapons and materials of mass destruction. The global partnership was established at the Kananaskis Summit two years ago to deal with the destruction or rendering safe of weapons of mass

destruction materials and missiles in the former Soviet Union. Today we had presentations by nine former republics of the Soviet Union, in many of which the United States already has programs but which the G8 is considering for formal membership in the Global Partnership. Since Kananaskis, we've added 13 new donor countries, and I expect that by the end of the year we will add some number -- two, three, four -- additional recipient countries in addition to the Russian Federation.

We also discussed today regional questions, regional nonproliferation issues, including Iran and North Korea and others. I thought that was a very productive meeting. I had a chance to have bilateral consultations with a number of other countries, particularly on the subject of Iran, and the upcoming IAEA Board of Governors meeting. The objective that the United States has been pursuing has been to insure that Iran does not acquire a nuclear weapons capability, and that is an objective shared by all of the G8 countries as reflected in the G8 leaders' statement issued at Sea Island. So there is no disagreement on our broad objective, no disagreement.

What we have tried to do here today [September 10], and yesterday [September 9] in particular, was to close the tactical gap that has existed between the United States and what we called the EU-3 [European Union Three]: Britain, France, and Germany. I think that I can say that we made progress in that regard here in Geneva. We have not completely closed the tactical gap, but I think discussions will continue over the weekend and then into next week and we will see what we are able to do.

The overall objective of insuring that Iran does not acquire nuclear weapons capabilities is not at issue. All of us are agreed on that. So we are pleased that we have made the progress we did in closing the tactical gap and we look forward, hopefully, to making some more.

For my own part I am off to Israel tomorrow for further consultations and then back to Washington. So, why don't I stop there and I will be happy to answer any questions any of you may have.

QUESTION: Since you are going to Israel tomorrow, Sir, have you discussed Israel in that meeting? If yes, tell us what did you discuss. If no tell us why you did not discuss it.

UNDER SECRETARY BOLTON: Yes we did discuss Israel in the context of states that are not party to the [Nuclear] Non-proliferation Treaty [NPT]. I raised it. That's basically the substance of the discussion.

QUESTION: If you could just say where these discussions are going to continue over the weekend, whether it is here or it is in Vienna? Could you give any more details on exactly how this gap has been narrowed, what specifically

UNDER SECRETARY BOLTON: I think the discussions will be in cyber space and over the telephone in a variety of different locations. I don't really want to get into the specifics because the questions of closing the tactical gap I think are best addressed in private consultations, but that is clearly our objective. I think the EU-3 and others share that objective. We have a ways to go, I don't want to overstate this, I don't want to create any misimpressions. We are not finished yet but I do think that we have made some progress the past couple of days.

QUESTION: Couple of questions: First and foremost, what exactly is the U.S. stand on FMCT [Fissile Material Cut-off Treaty] in regard to verification, because part of the problem is that if you do not have internationally credible and nondiscriminatory verification mechanisms, what exactly is the U.S. strategy in terms of containing the proliferation. Are you just emphasizing on the counter-proliferation as against nonproliferation which is being thought about? I have a follow up question, depending upon your answer.

UNDER SECRETARY BOLTON: I am tempted to say you should speak with Ambassador Sanders who is here on a permanent basis and could address that question at length. You should talk to her if you have not, also she will be in Vienna next week, but I will say that we have engaged in an extremely thorough and extensive review within the United States government on the question of whether the FMCT was verifiable and concluded that we didn't think we had sufficient confidence in verification that that should be part of the treaty, but we have said and expressed here in the CD [Conference on Disarmament] that we continue to search for a workable FMCT and that's the position we have taken. So that is my answer, and does that mean there is a second?

QUESTION: Yes.

UNDER SECRETARY BOLTON: I'm not surprised.

QUESTION: The second question is straight and simple. Those who are members of the IAEA and those who are in the NPT. Now you have two categories. You have the P-5 [Permanent Five members of the U.N. Security Council] who do not have to go through verification, and then you are saying that there has to be verification for those who are outside the P-5. So, would there be credibility in what you are doing in regard to Iran as forcing a country subject to

verification, while the big five are not ready to accept internationally credible verification mechanisms.

UNDER SECRETARY BOLTON: Well, I don't agree with the premise of your question since the five permanent members who are under the explicit terms of the nonproliferation treaty, legitimate nuclear weapon states, legitimate nuclear weapon states, recognized as such by every state party to the treaty, have undertaken, and the United States is one of them, to accept the Additional Protocol and to accept the circumstances in verification in regard in non-military programs. The non-nuclear weapon states, all the other parties to the NPT, if they are in compliance with the treaty, by definition do not have any military programs. So, the verification mechanisms are not fundamentally different on those aspects.

QUESTION: You said you did not want to go into too many details about the outstanding gap, but could you just say what is the outstanding issue, please?

UNDER SECRETARY BOLTON: I think that the position of the United States for quite sometime during the last five meetings of the Boards of Governors of the IAEA, five meetings, and now going into the sixth meeting, has been that the clandestine Iranian nuclear weapons program poses a threat to international peace and security, and that threat crosses the jurisdiction of the Security Council which should take the matter up.

The EU-3 and others have been pursuing a different route. I think the Iranians in the past six or so weeks have demonstrated that they do not intend to carry through with the premise of the EU-3 deal. The EU-3 are still working that issue. That has been the tactical difference between us. How we handle the Iranian program with respect to the Security Council. Our view, and I think it is the view of the EU-3 as well, is that if we can close the tactical gap we can increase the likelihood that we can achieve our overall objective which is to preclude the Iranians from achieving nuclear weapon status. That is really what we want to focus on and that is what we have been discussing here the past couple of days.

QUESTION: Is it going to be possible to have the Board of Governors' vote next week that Iran is in violation of the NPT? Is that still reasonable?

UNDER SECRETARY BOLTON: Well, the dynamic in the Board has demonstrated in the past five meetings a very strongly negative attitude on Iran's nuclear weapons program, finding repeated instances of lack of Iranian cooperation, of obstructing IAEA inspectors, not disclosing important aspects, changing their story from month to

month, and I think that there are clearly extensive questions about the Iranian program that remain unanswered. As I say, it has been our consistent view throughout this process that we should have the Iranian program referred to the Security Council. But the IAEA Board is a political process; we will see what happens next week.

There is a difference, I think between our stating what our position is and what has been achievable in the IAEA Board. That is one reason among many why we are working as hard as we are and that the EU-3 are working as hard as they are to close the tactical gap, and why we are pleased with the progress we have made here the past couple days.

QUESTION: I'd like to ask you if the Board does not come out with some kind of an agreement that the United States agrees with, if Iran still refuses to have inspections, would you push for sanctions at the Security Council, and what form are these sanctions likely to take?

UNDER SECRETARY BOLTON: Let me just say that the issue of what the Security Council does or might do when the question of the Iranian nuclear weapons program comes before it is one that we have considered very carefully, and consulted with a number of governments about. It is not the case that bringing Iran to the Security Council automatically results in the imposition of sanctions. If it were in fact that easy, we would in very different circumstances. What we are saying is that Iran's program, amounting as it does to a threat to international peace and security, is of sufficient gravity that we want to put the Iranian program at center stage, in the world spotlight, in the forum of the Security Council, the principal political body of the United Nations, the body of the United Nations charged with dealing with threat to international peace and security. We think, just politically, the international dynamic would change dramatically if Iran were in center stage in New York.

The question of what happens after that is largely in Iran's hands. If they were to truly give up the pursuit of nuclear weapons, there is a way to deal with that, and I think we demonstrated that in the case of Libya, but the first step is to get this into the Security Council where the Iranians are going to have to explain to the whole world what exactly it is they are up to.

QUESTION: I wonder whether the revelations by South Korea earlier this week were discussed in your meetings here in Geneva, and what is the U.S. position?

UNDER SECRETARY BOLTON: The question about South Korea was discussed and our view is that there is still much

we don't know about the question in South Korea. The South Koreans informed us just a few weeks ago, that was our first knowledge of it. The IAEA has been engaged in discussions and examinations within South Korea; that process continues. I think I can give you in part a procedural answer to the question: our understanding is that next week at the IAEA there will be a brief, probably verbal, report on what the IAEA has learned about at least the South Korean experiment in uranium enrichment, which was the first disclosure a week or so ago. And it is the general expectation, it was certainly I think the view of the G8, that the IAEA should continue its investigation and give a formal written report to the Board of Governors, perhaps by the November meeting. We are not setting an arbitrary deadline; if it takes longer we are prepared for that, but it would not be unreasonable to ask for a written report that lays out the facts and circumstances in more detail than we currently know by the November Board meeting, which takes place at the end of the month.

Because we are still interested ourselves, within the United States, in knowing all of the facts, we don't have a formal position on it, but one thing I can assure you: We will not allow a double standard in terms of how we treat violations of safeguards agreements; and there are a variety of steps we might take. I think the South Koreans have shown cooperation, they've brought this issue forward to the IAEA, and have been cooperating with the IAEA. But despite the chatter in some quarters, I want to be very clear that the United States will proceed to its decision on how to treat this matter considering the facts that the IAEA brings to us, but with no double standard at all.

QUESTION: I also want to ask about North Korea. You mentioned that you discussed the issue of North Korea. Could you elaborate on what you discussed and whether there were achievements on any of the points?

UNDER SECRETARY BOLTON: Basically we exchanged views on the status of the six-party talks, updating each other since our last meeting of our Senior Group, which was in early July. The subject of what comes next in the six-party talks -- whether there will be another round by the end of September, as the parties agreed at the third round of six-party talks -- is in discussion now. My colleague [Assistant Secretary of State for East Asian and Pacific Affairs] Jim Kelly is in Tokyo. He will be going on to Beijing, I believe, over the weekend. And I expect that any news on that subject will come from Jim Kelly's trip. What we were doing here was exchanging views among the G8 on the subject, as we customarily try to do.

QUESTION: Those countries who disagree with bringing the Iranian issue to the Security Council say that it will only

make the program go further underground and less accessible. What is your opinion on that? And are there any channels of communications open between Washington and Tehran on this?

UNDER SECRETARY BOLTON: Well, we have communications with Iran on a number of issues -- Afghanistan, events in Iraq -- not through me personally but through other mechanisms, and those are entirely appropriate, as we have had communication in the case of humanitarian disasters and so on. The issue of what Iran's reaction would be to having their nuclear weapons program placed on the agenda of the Security Council I think is something that of course we are interested in, but if the reaction were as you suggest, I think that would be strongly corroborative of the weapons-oriented nature of the program and contrary to their public assertions that it is simply for civil nuclear power. If they have nothing to hide, it is very easy to demonstrate. That has not been the pattern of behavior they've followed.

QUESTION: About the experiments by South Korea: What kind of impact do you see these experiments having on the resumption of the six-party talks and the nuclearization of the peninsula?

UNDER SECRETARY BOLTON: Well, I know there is a lot of speculation about that, and many, many governments in the G8 in our discussions today indicated that they had told the South Koreans that it was very unfortunate that this had been uncovered and that the timing couldn't be helpful. But I think part of the reaction has been against the mistaken backdrop that somehow the United States and others would try to excuse what we have learned about events in South Korea. And as I say, while our information is not complete, and while we believe that the South Koreans have been forthcoming and cooperative, the United States is not going to apply a double standard in connection with this issue. We need to learn more about it and when we do, as we say, potentially by the November IAEA Board meeting, we'll consider appropriate action. Our concern for some time with respect to the six-party talks has been that the North Koreans have gone into a stall, to use a basketball metaphor, to avoid having another round before the American elections. We have told them we think that is a mistake. We are prepared, I think the other parties to the six-party talks are prepared, to have the next round in Beijing before the end of September as we had all agreed. And a senior Chinese Communist Party official is in Pyongyang over the weekend to make that point to the North Koreans, and I think, as I mentioned, Jim Kelly will hopefully get a read-out from the Chinese side the first part of next week. If the analysis is correct that the North Koreans are stalling, I am not sure that the development in

South Korea necessarily has an impact. It is something the North Korean propaganda mills can grind on about. We are going to treat it seriously, in due course, with procedural regularity, through the IAEA, and we'll decide what to do about it, not for propaganda purposes, but in the regular order at the IAEA.

QUESTION: Two questions. First, don't you think there is a double standard when you deal with Iran and you deal with Israel, first of all?

UNDER SECRETARY BOLTON: No.

QUESTION: And because tomorrow is September 11, do you still believe that there are weapons of mass destruction in Iraq and is there any link between that and the terrorist attacks?

UNDER SECRETARY BOLTON: Any terrorist attacks in particular?

QUESTION: The September 11 attacks.

UNDER SECRETARY BOLTON: Well, I think our government position on that has been expressed many times and I am not going to get into that. I can tell you we didn't discuss that at the G8 meeting today. In terms of what actual weapons might or might not be in Iraq, the work of the Iraq survey group continues inside Iraq. They continue to investigate reports of weapons being taken out of Iraq in the weeks before and during the actual conflict itself and I think the most prudent course here is to await the final report of the Iraq survey group and then we will see what they are able to uncover.

QUESTION: Two questions, first you said you had bilateral talks with some G8 members. I am just wondering which countries?

UNDER SECRETARY BOLTON: All of them.

QUESTION: Second, if the United States doesn't get support, you said you still have a ways to go with this move to put Iran in front of the Security Council. What do you see U.S. action would be?

UNDER SECRETARY BOLTON: Well, I try to take it one BOG meeting at a time -- Board of Governors, we call it the BOG. I take it one BOG meeting at a time. This is our sixth BOG meeting. We think the proper outcome is to go to the Security Council. We are going to keep our persuasive arguments running and we will see what happens. When we come to the end of this BOG, then we'll evaluate and decide where to go from there.

QUESTION: I wonder what the U.S. position was on whether or not the head of the IAEA has a third term, because I believe he has expressed his interest in staying on.

UNDER SECRETARY BOLTON: We don't particularly have a reaction at this point. When we have a reaction, I'm sure we'll tell you what the reaction is.

QUESTION: On your trip to Israel, Prime Minister Sharon gave a rather strong interview to the Jerusalem Post this week which recalled the 1981 attack, at least in the minds of commentators, on Iraq. Is this going to be involved in the possible Israeli reaction to Iranian developments, is that going to be part of your talks in Israel?

UNDER SECRETARY BOLTON: Well, I don't know what Prime Minister Sharon said. I think the focus of the talks is going to be on the upcoming IAEA board meeting and I'll just leave it at that.

QUESTION: Sir, could you explain to me why it isn't a double standard, Iran and Israel? I can't get the real logic.

UNDER SECRETARY BOLTON: Sure. Iran provides support for terrorists. It has been on the United States' list of state sponsors of terrorism for any number of years. It is conducting a nuclear weapons development program in violation of its obligations under the Nonproliferation Treaty, and it is conducting a very extensive program to increase the range and accuracy of its ballistic missiles, and has demonstrated, we think, that it is a threat to international peace and security. And I think the case of Iran is very different from the case of Israel. It is discrimination when you treat two like things in a dissimilar fashion. And it is also discrimination when you treat two unlike things in the same fashion.

QUESTION: Can we come back to the disarmament initiatives which are now completely jettisoned at Geneva? Namely, what does the U.S. think about the Russian and Chinese proposal on PAROS [Prevention of an Arms Race in Outer Space], where does it stand? Does the opposition continue as it is, or is there a change?

UNDER SECRETARY BOLTON: We are not prepared to negotiate on the so-called arms race in outer space. We just don't see that as a worthwhile enterprise.

QUESTION: Did you discuss with Russia the fact that I believe it is helping Iran build a nuclear plant? Did you discuss this issue? Did you discuss your dismay, or has Russia allayed your dismay about this?

UNDER SECRETARY BOLTON: Well, we have had many discussions about the Bushehr nuclear power plant over the

years, and in particular we have urged Russia not to ship the fresh fuel for the Bushehr power plant until all of the questions about Iran's nuclear weapons program have been resolved. And in fact, for over two years now, that nuclear fuel has remained in Russia and not gone to Iran. And I think it is some indication of the seriousness with which the Russians treat the Iranian nuclear program. You may have seen President Putin's statement at Sochi a week or so ago when he said they do not accept that Iran should become a member of the nuclear club. I think that is another reflection of the depth of the feeling and the strength of the shared objective that we all have that Iran should not achieve a nuclear weapons capability. Why don't I take one or two more.

QUESTION: It is a little off this, but terrorist attacks are growing, horrible ones, in Russia. Did you also discuss the leaky nuclear facilities which exist in any of the former Republics and in Russia itself in terms of strengthening those facilities so that in fact nuclear fuel doesn't

UNDER SECRETARY BOLTON: Well, that's in effect what the Global Partnership is, a continuation of the Nunn-Lugar and other American and other programs that over the past ten or twelve years have expended billions of dollars in an effort to safeguard Russian nuclear weapons, dismantle ballistic missile facilities, and destroy chemical weapons and the like. I think if you ask the Russians they would say that the risk of a loose nuke in Russia is far greater to them than it is to anyone else. And I think the recent tragedy at Beslan is a good example of the risk that they fully understand: that if terrorist groups are capable of carrying out that kind of operation, how much more horrible it would be if such a terrorist group got a nuclear weapon. I don't think we are aware of any situation where Russia has lost command and control over a warhead. Now, I want to say that it is a problem not just in Russia, but worldwide -- that radiological sources of less than weapons-grade radioactive material have not been protected in pre-September 11 days the way they should be now. We have major initiatives that President Bush has launched. That'll be carried through in part the week after next in Vienna: the Global Threat Reduction Initiative that the U.S. and Russia are cosponsoring, this is something that on a worldwide basis we need to pay more attention to because of the danger that these radiological sources could be exploited to give terrorists the capability of creating what we call an RDD, a radiological dispersion device. So this issue is one that we need to be concerned about on a worldwide basis.

QUESTION: Who is in the nuclear club now?

UNDER SECRETARY BOLTON: We consider that there are five legitimate nuclear weapons states: France, the United

Kingdom, China, Russia and the United States, as indicated in the Nuclear Non-Proliferation Treaty.

QUESTION: And the others?

UNDER SECRETARY BOLTON: I think they are the ones that you know about. OK, any other questions? Thank you very much, have a nice weekend.

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International Cooperation Needed to Help Sudan, U.S. Officials Say

(Powell, Rice also discuss Iran, North Korea, Iraq, counterterrorism)

By Peggy B. Hu
Washington File Staff Writer

International cooperation will be needed to resolve the situation in Sudan, just as multilateral efforts have proven vital in addressing the challenge of Iran's and North Korea's nuclear activities, in rebuilding Iraq, and in fighting terrorism around the world, administration officials said in talk show appearances September 12.

In Sudan, the issue is "not just what the United States will do, but what will the international community do," Secretary of State Colin Powell said during an interview on ABC's "This Week with George Stephanopoulos."

Powell said the United States has asked for support for the expansion of the African Union monitoring force in Sudan and has asked the United Nations Security Council to consider the use of sanctions against that country. He also urged the continuation of "the political discussions that are taking place in Abuja, Nigeria, between the rebels and the government of Sudan."

In an interview on CNN's "Late Edition with Wolf Blitzer," National Security Advisor Condoleezza Rice said "it is everybody's assessment that the key is for the African Union to remain in the lead, to get an augmentation of the African Union force that is already on the ground."

"Rwandans are ready to go, Nigerians are ready to go. We are prepared with others to help get them there. And so, we're actively involved in trying to get Khartoum [the capital of Sudan] to stop this terrible tragedy," she said.

Multilateral efforts are also essential to remove the threat of Iran's and North Korea's nuclear activities, the administration officials said.

With respect to Iran, Powell said on NBC's "Meet the Press with Tim Russert" that the International Atomic Energy Agency (IAEA) will be meeting to examine the situation in that country, and that "there is concern and there is a growing consensus that this has to be dealt with by the international community."

"Nobody is looking for a war. Nobody is looking for any kind of action that would make the situation in that part of the world worse," he said on ABC. "And we're going to continue to pursue the strategy we are on of calling attention to those parts of Iran's nuclear development program that clearly indicate to us it is moving in the direction of a weapon."

Rice said on CNN that North Korea's nuclear activities also are of international concern, and cited the six-way talks between North Korea, South Korea, China, Russia, Japan, and the United States as an example of multilateral cooperation on the issue.

"The United States is no longer, as it was with the Agreed Framework in 1994, in a bilateral agreement with North Korea," she said. "This is a six-party arrangement in which North Korea's neighbors are saying that North Korea must abandon its nuclear weapons programs."

Regarding Iraq, Powell said on "Fox News Sunday" that the insurgents have increased their activity since the Coalition Provisional Authority turned over control of the country to the Iraqi interim government, and will likely try to disrupt the Iraqi elections scheduled for January 2005.

The insurgents "don't want this new government to succeed. They don't want elections to take place. They want to go back to the past. They want to go back to the days of Saddam Hussein and developing weapons of mass destruction, filling mass graves, human rights violations. And we're not going to let them go back. We can't let them go back," he said.

Powell said the international community must work together to fight terrorist activities in Iraq and elsewhere.

"There are people out there who wish us harm, and the Russians have people who wish them harm, the Indonesians the same thing," he said, referring to the recent attacks on two airliners, a subway station, and a school in Russia and the bombing of the Australian embassy in Jakarta, Indonesia.

"What we have seen is that all nations that are civilized and do not accept this kind of action as representing any sort of

legitimate political cause are coming together to fight these terrorists," he said.

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Fact Sheet: U.S. Rebuts Criticism of Domestic Cotton Subsidies

(USTR says programs do not cause low prices or hurt foreign growers)

The Office of the U.S. Trade Representative (USTR) September 8 issued a fact sheet dispelling myths about U.S. support to cotton farmers.

Following is the text:

*Dispelling Myths about U.S. Support to Cotton Farmers:
U.S. Programs Have Not Caused Low Cotton Prices and Hurt Foreign Growers*

Overview

U.S. farm programs benefiting cotton farmers have attracted considerable attention and criticism recently, especially in light of low world cotton prices in recent years. The myth presented by critics is simple: U.S. cotton production and exports went up when prices were going down so these must have been the effect of U.S. farm programs. Critics also argue that U.S. cotton support increased under the 2002 farm bill, further driving down cotton prices. But the facts do not support these myths. The facts are:

- Cotton prices actually increased in each of the first two years under the 2002 farm bill, despite the alleged increase in U.S. cotton support.
- The U.S. share of world cotton production has remained stable and even declined in recent years, despite the alleged increase in U.S. cotton support.
- U.S. cotton's share of world cotton consumption has remained stable and even declined in recent years because U.S. mill use decreased as U.S. cotton exports increased.
- U.S. farmers increase and decrease cotton acreage like producers in the rest of the world, showing that U.S. farmers are responding to market price signals.
- U.S. farmers responded to expected market prices in recent years by planting more cotton when those prices for cotton looked more attractive than for competing crops --

just as foreign producers did -- and less cotton when cotton looked less attractive.

Thus, the facts simply do not support the myth that U.S. farm programs have distorted trade, caused low cotton prices, and hurt foreign growers. Rather, U.S. farm programs have operated as designed, supporting farmers' incomes while allowing them to react to market signals.

MYTH 1: U.S. Support to Cotton Farmers Results in Low Cotton Prices

REALITY: U.S. Farm Programs Have not Caused Low Cotton Prices

Several countries (such as Brazil) and interest groups have loudly complained that U.S. farm programs have caused increased U.S. cotton and hurting producers in the rest of the world. They also argue that the U.S. 2002 farm bill increased support to cotton, further increasing production effects and trade distortions. Several media sources have accepted these arguments at face value and repeated them. However, the facts do not support these claims about U.S. farm programs.

Fact Rebutting Myth 1: Cotton prices have increased despite the alleged increase in U.S. cotton support

U.S. and world cotton prices have actually risen substantially in each of the first two marketing years under the 2002 farm bill (which critics allege increased support to cotton), contradicting those claims that recent low prices resulted from U.S. farm programs. Put simply, U.S. farm programs did not prevent prices from recovering in marketing years 2002 and 2003 any more than they were responsible for prices declining in marketing years 1999 through 2001.

-- Figure 1 [graphic] shows that average U.S. cotton farm prices in marketing year 2002 were 49.3 percent higher than marketing year 2001 prices (an increase of 14.7 cents per pound).

-- Average U.S. cotton farm prices in marketing year 2003 were another 41.3 percent higher than marketing year 2002 prices (an increase of 18.4 cents per pound).

-- Figure 2[graphic] shows similar increases in world cotton prices, as reflected in the A-index Northern Europe (an industry benchmark), in marketing years 2002 and 2003.

Fact Rebutting Myth 1: Recent Independent Studies Find Very Low Price Impacts From U.S. Programs

Brazil has asserted that world cotton prices would be 12.6 percent higher in the absence of certain U.S. farm programs. Some media sources have accepted that estimate without any further analysis. The United States' analysis is that U.S. farm programs have not had significant production and price effects in recent years. Three recent independent studies demonstrate that Brazil's estimated price increase is vastly exaggerated. That is, Brazil's estimated 12.6 percent price increase is 6 to 12 times higher than those found by these independent groups.

-- A 2004 study by Texas Tech University found the removal of certain U.S. programs would result in price changes of less than 1 percent in the long run.

-- A 2004 study by the Food and Agricultural Organization (FAO) of the United Nations estimated that the removal of all subsidies and tariffs for cotton worldwide would result in just a 3.1 percent increase in cotton prices. The impact of removing certain U.S. programs alone, which accounted for approximately two-thirds of the payments modeled, would therefore be approximately 2 percent (two-thirds of 3.1 percent).

-- A 2003 IMF [International Monetary Fund] study found that the elimination of certain U.S. programs would result in a 2 percent change in cotton prices.

The United States disagrees with important conceptual and methodological aspects of these three studies, such as the way certain payments are incorporated in the models. But it's worth noting that even these studies suggest that, at current prices, the impact of U.S. farm programs on cotton prices is on the order of half a cent to 1 cent per pound -- hardly a significant amount. Thus, these studies support the U.S. position that U.S. farm programs have not caused recent low cotton prices.

Fact Rebutting Myth 1: High Correlation between Chinese Net Import Levels and Price Movements

If U.S. support for cotton farmers has not driven cotton prices down, why were prices so low between 1999-2002? One of the most important factors to consider is the role China plays in world cotton markets. China is currently the largest producer and user of raw cotton. As Figure 2 [graphic] demonstrates, price trends as represented by the A-index Northern Europe (an industry benchmark) are highly correlated to China's net imports of cotton.

Generally, when China is increasing its imports or decreasing its exports, cotton prices go up, but when China is decreasing its imports or even exporting cotton, cotton prices fall. This fact, which impacts everyone involved in

cotton markets, is completely independent of U.S. farm programs.

MYTH 2: U.S. Support to Cotton Farmers Has Driven Up U.S. Production and Exports at the Expense of Foreign Competitors

REALITY: The U.S. Share of World Cotton Production and World Cotton Markets Has Remained Stable and Even Decreased Recently

Fact Rebutting Myth 2: The U.S. share of world cotton production has been stable even though U.S. cotton support has allegedly increased

Critics allege that, because U.S. cotton production increased between 1999 and 2001 at the same time that prices were falling, this must have been the result of U.S. farm programs. However, these critics neglect to point out that the U.S. share of world cotton production did not change much over that same period, hovering around 20 percent, and has even decreased since 2001. Thus, the facts don't support the assertion that U.S. cotton farmers have expanded production any differently than their competitors in other countries.

As Figure 3 [graphic] shows, the U.S. share of world cotton production has remained relatively stable, suggesting that increases and decreases in U.S. cotton production have mirrored similar increases and decreases in cotton production in the rest of the world.

Fact Rebutting Myth 2: The share of world cotton consumption sourced from U.S. cotton has remained stable and even declined in recent years when U.S. exports have increased

Critics have also argued that rising U.S. exports in recent years must mean that U.S. farm programs are stimulating production, which leads to exports. As shown above, however, the U.S. share of world cotton production has not increased. So how can U.S. exports be increasing while the U.S. share of world cotton production remains the same?

The answer is simple: as U.S. domestic mill consumption of cotton has declined in recent years, more U.S. cotton has been available for export and has been exported. U.S. production hasn't changed, only the place in which that cotton is consumed. Figure 4 [graphic] clearly shows that, as U.S. exports have increased (the blue bars), domestic mill consumption has decreased (the red bars).

Put another way, if you look at total world consumption of cotton, the share of that use that is sourced from U.S. cotton

(the black line in Figure 4) has remained around 19 percent in recent years. In fact, it actually declined between 2001 and 2004, precisely those years when U.S. exports were highest. Thus, U.S. exports were not expanding at the expense of foreign competitors. As Figure 5 demonstrates, foreign production has not kept pace with foreign cotton use. So, foreign countries have needed additional cotton, leading to higher U.S. exports.

MYTH 3: U.S. Support to Cotton Farmers Has Insulated U.S. Farmers from Market Price Signals

REALITY: U.S. Cotton Farmers Have Reacted to Market Conditions Just As Their Competitors in the Rest of the World Have

Critics also argue that the effect of U.S. farm programs is to insulate U.S. cotton farmers from market forces. We've already seen that the U.S. share of world cotton production and world cotton consumption has not only not increased in recent years but actually declined between 2001 and 2004. Thus, U.S. farmers are increasing and decreasing cotton production much like the rest of the world.

Because production is affected by weather and other conditions that impact crop yields, an even better way to demonstrate that U.S. farm programs have not insulated U.S. cotton farmers from market forces is to look at cotton acreage. The facts demonstrate that (1) U.S. cotton acreage increases and decreases just like the rest of the world and (2) U.S. cotton acreage does respond to market price signals.

Fact Rebutting Myth 3: U.S. farmers change cotton acreage like farmers in the rest of the world

If U.S. farm programs insulated U.S. cotton farmers from market forces, the change in U.S. cotton acreage from year to year would look very different from the change in cotton acreage in the rest of the world. Indeed, when critics argue that U.S. cotton acreage and production expanded during a time of low prices (1999-2001), hurting producers in other countries, implicitly, these critics are suggesting that foreign growers must have been acting differently. The facts are, however, that U.S. producers have increased and decreased acreage commensurately with producers in the rest of the world.

Figure 6 [graphic] clearly shows that U.S. cotton farmers have increased and decreased harvested acreage commensurately with producers in the rest of the world. From 2002 to 2003, the one time U.S. and foreign farmers changed acreage differently, it was U.S. cotton farmers who decreased their cotton acreage while foreign producers

expanded theirs, suggesting that, if anyone, it's not U.S. farmers who have been putting downward pressure on prices. Thus, unless foreign producers are themselves insulated from market price movements, the acreage data reveal that U.S. farmers respond to market price signals just as farmers in the rest of the world do. Further, if producers in most of those countries are not "subsidized" -- as critics claim -- then the acreage data suggest that U.S. farm programs are not distorting U.S. cotton farmers' production decisions.

Fact Rebutting Myth 3: U.S. farmers are responding to expected market prices at time of planting

Since U.S. and foreign producers are increasing and decreasing acreage similarly, year after year, the real question for Brazil and others to ask is: what accounts for the increase in U.S. (and other countries') acreage in those years, like marketing year 2001, when prices were so low? The answer lies in the fact that cotton farmers plant in the spring based on what they expect prices to be in the fall when they harvest the crop. Since farmers don't know, when they make planting decisions, what harvest-season prices will actually be, they rely on expected prices reflected in futures markets. In several recent years (like marketing year 2001) when harvest-season prices were low, the expected price for cotton when farmers were making their planting decisions in the spring was relatively higher than the expected price for other alternative crops, such as soybeans. So, for many farmers, cotton was expected to be the more profitable crop to plant.

Figure 7 [graphic] makes the point by plotting both U.S. planted acreage for upland cotton and the ratio of cotton to soybeans futures prices.⁽¹⁾ Because soybeans are a main competing crop to cotton in many U.S. states, this ratio is a simple way of estimating the relative attractiveness of planting cotton. The figure demonstrates that in years when U.S. cotton planted acreage was higher (1999-2001), cotton was relatively more attractive to plant than soybeans. In years when the cotton to soybeans futures ratio was lower (like 2002 and 2003), U.S. cotton acreage fell below 1999-2001 levels.

The futures data show that farmers planted cotton in the spring of 1999, 2000, and 2001 expecting relatively higher cotton prices compared to competing crops. By the time of harvest in the fall of those years, they actually got low or very low prices. But that doesn't mean planting cotton wasn't the rational business decision; at the time of planting, futures prices indicated that planting cotton was the right choice. In fact, as we saw above, any mistake in planting cotton in 1999-2001 was one made by farmers all

around the world based on the same futures price information.

MYTH 4: Large Government Payments to U.S. Cotton Farmers Must Have Distorted Trade and Caused Low Prices

REALITY: The Data Do not Show that U.S. Farm Programs Insulate Farmers from Market Forces

Critics point to significant government payments to U.S. cotton farmers in recent years and ask: how can the United States provide so much money and not increase U.S. cotton production and exports, depressing cotton prices? But the data show that U.S. farmers have reacted to expected market prices by making the same planting decisions their competitors have. Therefore, the mere fact that U.S. farmers have received government payments cannot mean that those payments must have had significant effects on U.S. production and effects on prices in world cotton markets.

In fact, the payments to U.S. cotton farmers that Brazil and other critics complain about were expressly designed not to have significant production and price effects. For example, the United States extensively reformed its farm programs in the 1996 farm bill, and the 2002 farm bill introduced substantially similar programs. A key part of those reforms was to eliminate traditional payments with high levels of support tied to current production of cotton. In their place, new payments not tied to current production of cotton were introduced.

The data presented above show that these reforms have worked. U.S. cotton farmers have responded to expected market prices when planting cotton. Indeed, they have reacted much as their competitors in the rest of the world have, with U.S. and foreign cotton acreage increasing and decreasing similarly. What's more, U.S. cotton production as a share of world production and U.S. cotton's share of world cotton markets have remained stable, and even declined in recent years. Therefore, the myth that U.S. farm programs must have distorted production and trade, depressing prices in world cotton markets, is just that, a myth not supported by the facts. Rather, U.S. farm programs have operated as designed, supporting farmers' incomes while allowing them to react to market signals.

(1)The futures prices used are the January-March average for December cotton and November soybeans futures contracts. Planting decisions are generally taken in the January-March period. December futures prices for cotton and November futures prices for soybeans show what the

market expects prices to be when the crop is harvested and brought to market.

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